

Rhodes ANNUAL REPORT

1964

DIRECTORS AND OFFICERS:

HERBERT I. DUNN
Partner, Schwabacher & Company

J. C. ERNST

JOHN J. GOLDBERG
Assistant Secretary

J. F. KILMARTIN
Vice President

O. JAMES MAUEL

ELLIOTT McALLISTER
Director, The Bank of California, N.A.

JOHN J. REILLY
Chairman of the Board

JOHN J. REILLY, JR.
President

LINDSAY L. RUSCH
*Vice President
Secretary and Treasurer*

F. A. WICKETT

LEGAL COUNSEL:

Steinhart, Goldberg, Feigenbaum & Ladar

TRANSFER AGENT:

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, California

PUBLIC ACCOUNTANTS:

Price Waterhouse & Co.

REGISTRAR:

Wells Fargo Bank
464 California Street
San Francisco, California

ANNUAL STOCKHOLDERS MEETING:

Tuesday, April 27, 1965, 11:00 o'clock A.M.
Rhodes-Oakland, Executive Offices, 1501 Broadway, Oakland, California

TO OUR SHAREHOLDERS

Sales of Rhodes in 1964 were \$63,544,037, an increase of \$6,595,713, or 12%, over the 1963 figure. Net profit for the fiscal year was \$859,619, and after payment of preferred dividends of \$150,000 was equal to \$1.01 a common share. This compared with \$1,074,495, or \$1.49 a common share in 1963.

We feel that we are past the difficult period of opening our new stores. Considerable expense was involved in carrying the three new stores through their first year of operation. Two of our three new stores, Phoenix and Palo Alto, completed their second Christmas Season in 1964. In the Fourth Quarter the Company's earnings returned to their normal profitable basis. We expect this improvement to continue in 1965.

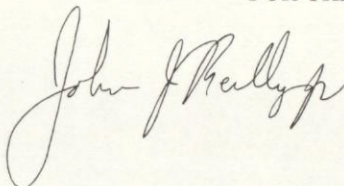
Construction of our new store in Albuquerque, New Mexico, is well along and the store is scheduled to open in October, 1965. Since the Albuquerque store will be operating out of our Phoenix store, we do not expect opening costs to have any substantial effect on this year's earnings. A more detailed description of the Albuquerque store is contained on Pages 2 and 3 of this report. During the year we completed the remodeling of our Fashion floor in the Oakland store and the redecorating of our Lakewood store in Tacoma.

Two new vice presidents were elected at the Annual Meeting. Lindsay L. Rusch, who has been our secretary-treasurer since 1957, was elected vice president and secretary-treasurer. John F. Kilmartin, former general manager of our Oakland and Concord stores, joined our headquarters office as a vice president.

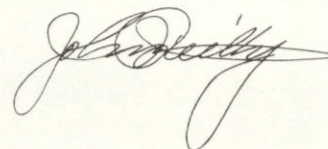
During the year, your company paid four regular quarterly dividends of 25 cents on common stock for a total of \$704,428. It paid four quarterly dividends of \$1.25 per share on Series A preferred stock for a total of \$150,000. The retained earnings account on January 31, 1965 equalled \$14,030,027.

A department store is basically a service operation and the amount and kind of service depends largely upon our sales and sales-supporting people. We are fortunate in having at Rhodes a friendly, dedicated staff which makes shopping a pleasure. To them, to our all-important customers, to our stockholders, to our suppliers, may we express our appreciation.

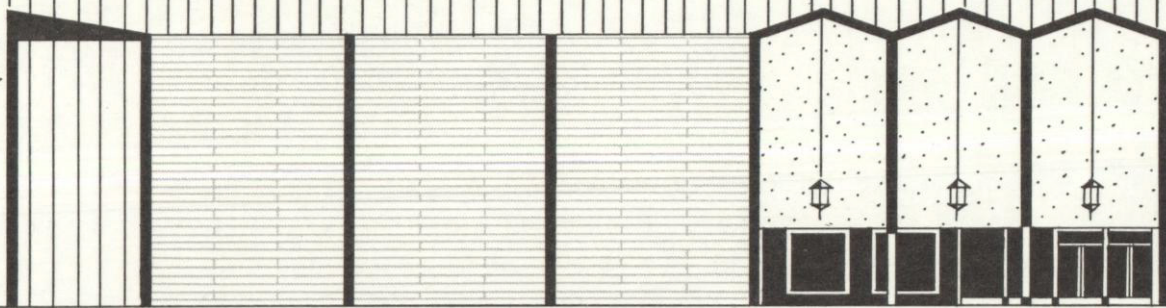
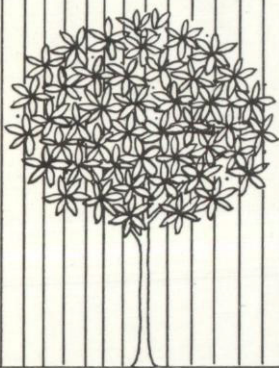
FOR THE BOARD OF DIRECTORS:



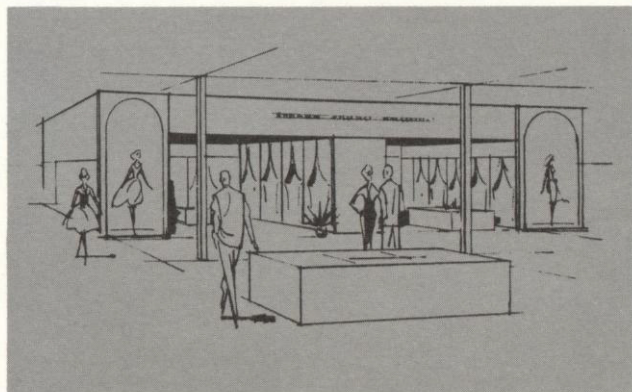
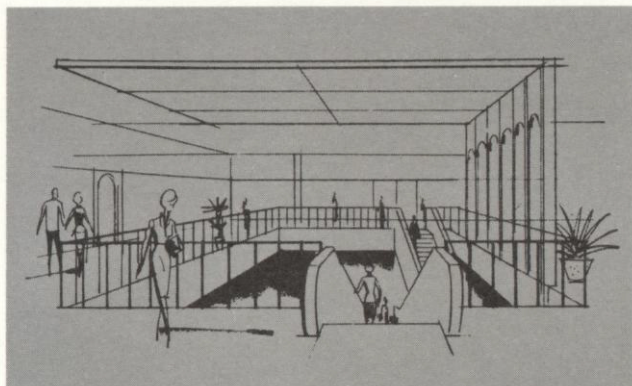
JOHN J. REILLY, JR.
PRESIDENT



JOHN J. REILLY
CHAIRMAN



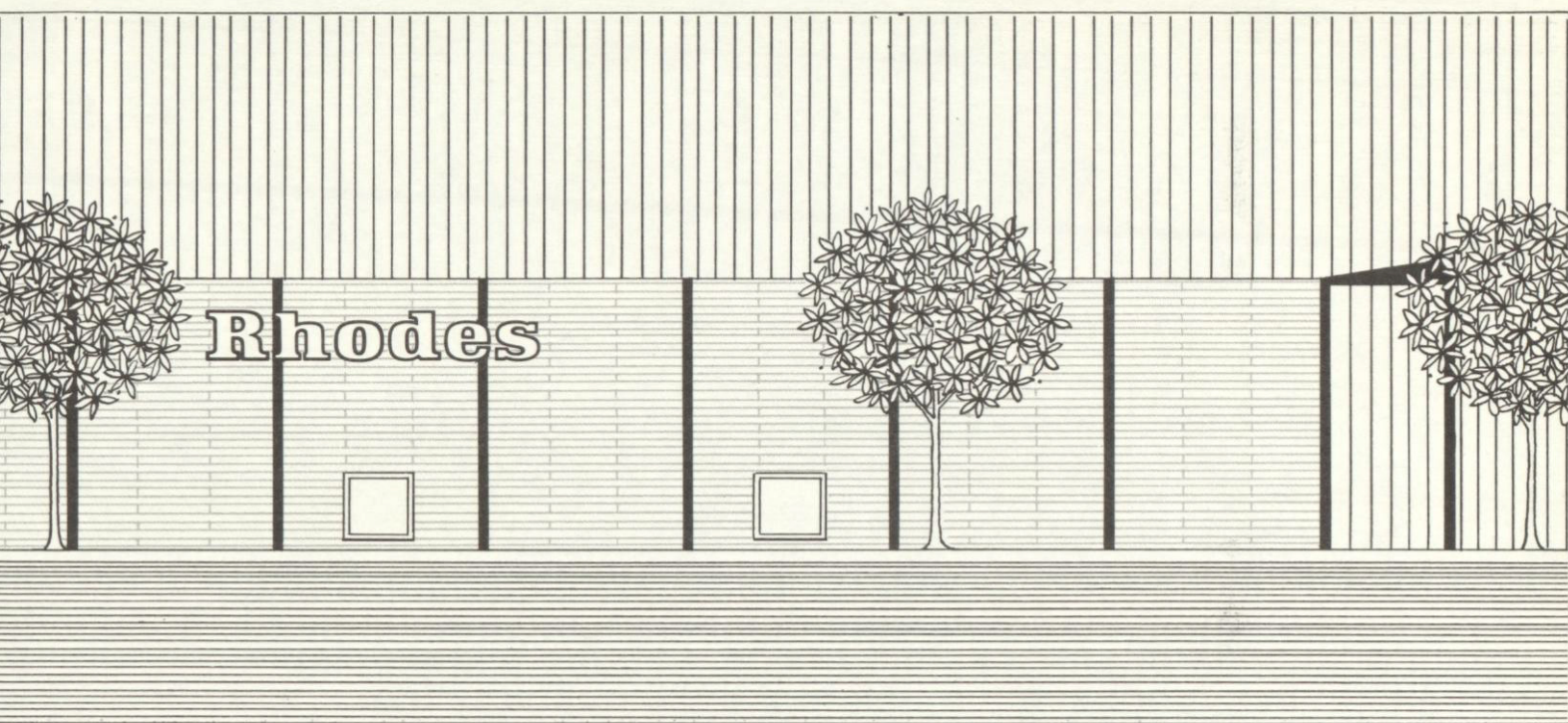
PRESENTING—THE ALBUQUERQUE STORE



Four miles northeast of downtown Albuquerque, New Mexico, a new Rhodes' store is rising in the Coronado Shopping Center. The architecture of the store is a skillful blend of the traditional and the modern—preserving the flavor of the Spanish Colonial epoch yet having strong contemporary accents. It is surfaced with large white bricks; dark charcoal brown columns give it a vertical flow. Folded metal canopies focus interest on the four entrances. The two-level store has 118,272 square feet of floor space. The interior is designed to give a light, open feeling to the store.

Rhodes is one of two major tenants in the Coronado Center. The Center itself has 500,000 square feet of shopping area, and parks 2,000 cars. Its location at the intersection of Louisiana Blvd. and Menaul Blvd. places it squarely in the center of the residential growth pattern of Albuquerque in recent years.

Albuquerque fully measures up to Rhodes specifications for growth. Between 1950 and 1960 its



population doubled to more than 201,000. Median income doubled in the same period and average family income exceeds \$7,000. Approximately one-third of New Mexico's 1,000,000 residents live within easy driving distance of Rhodes. Much of the impetus to Albuquerque's growth has been provided by the Sandia Base and the nearby Los Alamos Scientific Laboratory of the Atomic Energy Commission, which make the city a national center for nuclear/space research and development. Many of the 390 manufacturing firms in the Albuquerque area are engaged in the nuclear, aerospace and electronics industries.

Albuquerque is predominately a city of young people. More than 40% are under 18 years of age. Approximately two-thirds of its residents own their own homes. The scientific orientation of the city is reflected in the 5,500 degree-holding scientists and engineers in the Albuquerque-Los Alamos area. The number of residents with four years or more of college is nearly double the national average.

Now—13 Rhodes stores growing with the West

IN WASHINGTON	<i>TACOMA—Downtown</i>
	<i>TACOMA—Lakewood Center</i>
IN OREGON	<i>PORTLAND—Downtown</i>
	<i>PORTLAND—Gateway Center</i>
IN CALIFORNIA	<i>OAKLAND—Downtown</i>
	<i>CONCORD—Concord Center</i>
	<i>SACRAMENTO—Country Club Centre</i>
	<i>SACRAMENTO—Southgate Center</i>
	<i>FRESNO—Manchester Center</i>
	<i>PALO ALTO—San Antonio Center</i>
IN ARIZONA	<i>PHOENIX—Camelback Center</i>
IN TEXAS	<i>SAN ANTONIO—Wonderland Center</i>
IN NEW MEXICO	<i>ALBUQUERQUE—Coronado Center</i>

RHODES BALANCE SHEET

ASSETS	January 31 1965	January 31 1964
CURRENT ASSETS:		
Cash and short-term securities	\$ 3,344,649	\$ 852,266
Accounts receivable, less allowance for doubtful accounts— 1965, \$524,000; 1964, \$495,000	13,574,239	13,026,294
Merchandise inventories—on hand, at lower of cost or market as determined by the retail inventory method; in transit, at cost	<u>12,114,756</u>	<u>12,176,226</u>
	<u>29,033,644</u>	<u>26,054,786</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unexpired insurance, prepaid taxes and other deferred expenses	625,723	518,433
Miscellaneous receivables, deposits, etc.	<u>473,898</u>	<u>540,308</u>
	<u>1,099,621</u>	<u>1,058,741</u>
PROPERTIES, at cost:		
Land	129,991	129,991
Furniture, fixtures, equipment, etc.	6,633,698	8,470,172
Leasehold improvements	4,341,673	4,296,988
Accumulated depreciation and amortization	<u>(6,924,765)</u>	<u>(8,325,014)</u>
	<u>4,180,597</u>	<u>4,572,137</u>
	<u>\$34,313,862</u>	<u>\$31,685,664</u>

LIABILITIESJanuary 31
1965January 31
1964**CURRENT LIABILITIES:**

Accounts payable	\$ 2,906,947	\$ 2,991,499
Payrolls, taxes, and other accrued liabilities	904,794	1,179,300
Current instalment on note payable	500,000	
Federal taxes on income, estimated	518,528	670,135
	<u>4,830,269</u>	<u>4,840,934</u>

FEDERAL INCOME TAXES DEFERRED TO FUTURE YEARS

(Note 1)	<u>1,340,000</u>	<u>1,250,000</u>
--------------------	------------------	------------------

LONG-TERM NOTE PAYABLE (Note 2)	<u>8,500,000</u>	<u>6,000,000</u>
---	------------------	------------------

STOCKHOLDERS' EQUITY:

Cumulative preferred stock, par value \$100 per share, authorized 100,000 shares; issued and outstanding 30,000 shares, 5%, designated as Series A Preferred (Note 3)	3,000,000	3,000,000
Common stock, par value \$.25 per share—authorized 1,200,000 shares; represented by 707,688 issued shares of which 2,885 shares were held in Treasury on January 31, 1965 (Notes 3 and 4)	176,922	176,485
Capital in excess of par value of common stock (Note 4)	2,436,644	2,326,594
Retained earnings, per accompanying statement (Note 3)	14,030,027	14,091,651
	<u>19,643,593</u>	<u>19,594,730</u>
	<u>\$34,313,862</u>	<u>\$31,685,664</u>

RHODES STATEMENT OF INCOME

	Year ended January 31 1965	Year ended January 31 1964
Net sales including leased departments	\$63,544,037	\$56,948,324
Cost of sales, operating and administrative expenses (exclusive of those shown below) less credit service charges	60,877,901	54,132,151
Depreciation and amortization	750,252	633,250
Contributions under employee benefit plans	212,640	173,868
Interest expense	438,360	290,191
	<u>62,279,153</u>	<u>55,229,460</u>
	1,264,884	1,718,864
Other income	154,735	70,631
Income before federal income taxes	<u>1,419,619</u>	<u>1,789,495</u>
Provision for estimated federal income taxes, including \$90,000 in 1964 and \$50,000 in 1963 deferred to future years (Note 1) . . .	560,000	715,000
Net income for the year	<u>\$ 859,619</u>	<u>\$ 1,074,495</u>

STATEMENT OF RETAINED EARNINGS:

Retained earnings at beginning of year	\$14,091,651	\$13,744,038
Net income for the year	859,619	1,074,495
	<u>14,951,270</u>	<u>14,818,533</u>
Less:		
Cash dividends paid:		
Preferred stock	150,000	25,000
Common stock	704,428	701,882
Cost of treasury stock purchased	66,815	
Retained earnings at end of year (Note 3)	<u>\$14,030,027</u>	<u>\$14,091,651</u>

Notes to Financial Statements, January 31, 1965

NOTE 1: ■ The Company follows the instalment method of reporting income for tax purposes. Under this method, income taxes are payable on instalment sales as the accounts are collected rather than at the time sales are made to customers. For financial statement purposes the Company reports income from sales at the time they are made and therefore provision has been made for the income taxes deferred to future years.

The Company follows the flow-through method of accounting for the investment tax credit provided by the Revenue Acts of 1962 and 1964. The provision for federal income taxes for the years ended January 31, 1965 and January 31, 1964 have been reduced by \$118,000 and \$235,000, respectively, representing the investment tax credit for the year.

NOTE 2: ■ In February, 1964 the Company, pursuant to an earlier agreement with an insurance company, replaced the existing \$6,000,000, 4¼% notes with a 5% note in the amount of \$9,000,000. The note is payable in annual instalments of \$500,000 commencing March 1, 1965 with the balance payable on March 1, 1981.

NOTE 3: ■ The Series A Preferred can be redeemed at (or is entitled to receive in the case of voluntary liquidation) \$105 per share on or before June 1, 1970, such amount decreasing ratably to \$100 per share on June 1, 1979, plus any unpaid and accumulated dividends. The Company is required to make payments into a sinking fund on June 1 of each year of \$125,000 for years 1969-1973, \$175,000 for years 1974-1978 and \$300,000 for years 1979-1983 less amounts equal to the par value of Series A Preferred purchased or redeemed. Sinking fund payments are to be used to purchase or redeem Series A Preferred at prices not exceeding the par value thereof. In addition, certain restrictions are placed on the payment of cash dividends; retained earnings at January 31, 1965 not so restricted were \$965,981.

The purchaser of the Series A Preferred was granted a warrant which expires June 1, 1973 entitling the holder to purchase 20,000 shares of common stock at \$22.50 per share. At January 31, 1965, 20,000 unissued common shares were reserved for this purpose.

NOTE 4: ■ During the year 6,000 shares of treasury stock were sold to 52 employees at \$19.00 per share, payable over a period of five years, with interest on the unpaid balances. The proceeds from these sales, \$114,000, were added to capital in excess of par value; cancellations of sales in the amount of \$33,131 were deducted from capital in excess of par value.

Because of changes incorporated in the Revenue Act of 1964, the Company does not plan to grant further stock options under the incentive stock option plan adopted in 1959. Under the plan options outstanding at January 31, 1964 amounted to 19,790 shares. During the year options for 1,750 shares were exercised at \$16.625 and \$19.25 per share, and options for 6,100 shares were cancelled. Options outstanding at January 31, 1965 of 11,940 shares were granted in years 1959 through 1963 at \$16.625 and \$17.93 per share and are exercisable ratably over a four-year period commencing two years from date of grant.

NOTE 5: ■ The Company occupies its twelve stores under leases which expire at various dates from 1972 to 1994. The leases provide for rentals based on sales with a guaranteed minimum and in certain instances require payment of property taxes, insurance and certain other expenses, which in general may be deducted from rents paid in excess of the minimum. The terms of leases covering eight stores may be extended at the option of the Company. In addition, fixtures in three stores are leased for ten year periods. Total rentals of \$2,750,000 were charged to cost of sales and operating expenses in 1964. The minimum annual rental commitments for 1965 are \$2,500,000.

The Company has signed a lease for a location in Albuquerque, New Mexico, which will become effective upon completion of the building.

Opinion of Independent Accountants

To the Board of Directors and Stockholders of Rhodes Western

In our opinion, the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of Rhodes Western at January 31, 1965, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

San Francisco, March 10, 1965

PRICE WATERHOUSE & CO.

RHODES TEN YEAR SUMMARY OF OPERATIONS

<i>Years Ended January 31</i>	<i>1965</i>	<i>1964</i>	<i>1963</i>	<i>1962</i>
Net sales	\$63,544,037	\$56,948,324	\$50,044,477	\$46,035,273
Income before federal income taxes	1,419,619	1,789,495	2,462,718	2,295,074
Federal income taxes	560,000	715,000	1,260,000	1,190,000
Net income	859,619	1,074,495	1,202,718	1,105,074
Per common share	1.01	1.49	1.72	1.58
Dividends paid				
Preferred stock	150,000	25,000		
Common stock	704,428	701,882	700,221	699,808
Per common share	1.00	1.00	1.00	1.00
Additions to properties	358,712	1,024,529	425,961	506,198
Depreciation and amortization	750,252	633,250	785,054	834,802
Accounts receivable	13,574,239	13,026,294	10,804,115	3,249,488
Merchandise inventories	12,114,756	12,176,226	10,019,604	8,866,276
Working capital	24,203,375	21,213,852	18,286,704	16,595,316
Properties, net	4,180,597	4,572,137	4,180,858	4,539,951
Total assets	34,313,862	31,685,664	27,440,462	26,775,009
Long-term debt	8,500,000	6,000,000	6,000,000	6,440,000
Stockholders' equity	16,643,593	16,594,730	16,212,781	15,696,893
Per common share	23.61	23.63	23.15	22.45
<i>At year end:</i>				
Shareholders, common stock	1,904	1,917	1,994	2,000
Employees	2,552	2,467	2,200	2,093
Stores in operation	12	11	9	9

<i>1961</i>	<i>1960</i>	<i>1959</i>	<i>1958</i>	<i>1957</i>	<i>1956</i>
\$45,516,456	\$46,069,861	\$40,704,446	\$41,021,658	\$37,726,906	\$34,797,385
2,410,895	3,201,566	2,475,662	2,100,990	2,721,542	2,493,829
1,250,000	1,675,000	1,270,000	1,085,000	1,405,000	1,300,000
1,160,895	1,526,566	1,205,662	1,015,990	1,316,542	1,193,829
1.66	2.19	1.72	1.45	1.88	1.71
700,710	595,321	556,816	699,872	559,622	620,603
1.00	.85	.80	1.00	.80	.90
901,837	1,197,153	543,427	965,169	1,007,337	224,590
802,213	751,554	625,280	624,438	417,545	378,872
9,628,071	9,542,428	8,944,980	8,835,662	9,181,894	7,197,791
8,678,698	7,745,446	6,713,753	6,172,264	6,001,386	4,880,709
16,621,038	16,787,803	16,823,246	14,471,617	12,479,145	10,160,223
4,873,740	4,771,203	4,322,557	4,450,695	4,118,654	3,523,973
26,109,278	27,137,693	26,428,226	23,048,074	21,235,724	18,086,283
6,880,000	7,320,000	7,760,000	6,200,000	4,200,000	2,000,000
15,323,788	14,786,624	13,922,368	13,255,804	12,958,242	12,185,826
21.85	21.23	19.89	18.97	18.51	17.44
2,135	2,042	2,013	2,038	1,959	1,919
2,050	2,069	1,868	1,863	1,677	1,597
9	8	7	7	5	4

Rhodes